

WEEKLY FINANCIAL SERVICES REPUBLICAN ROUND-UP

MESSAGING RESOURCES/POLLING UPDATE

The Era Of Big Government Is Back. The Democrats' agenda calls for expanding the reach of government by creating new agencies that will regulate the choices of individual and business consumers of financial products and services. Whether it is creating a "Consumer Financial Protection Agency," imposing new derivatives rules that magnify, rather than mitigate, systemic risk, or establishing a financial markets "super cop," the Democrats are advancing the supremacy of government dictates over market incentives.

Requiring OTC Derivatives To Be Centrally Cleared And Standardized Amounts To An Unnecessary Regulatory Power Grab. Because accounting rules require derivative hedges to have a close and consistent relationship with the underlying asset or liability that is being hedged, mandatory clearing will make it more difficult, if not impossible, for American companies to manage their risk exposures with the customized derivatives they require for hedge accounting. In addition, mandatory clearing would require companies to divert hundreds of millions of dollars of capital away from business investment for use as cash collateral. It seems counterintuitive during a recession to leave companies exposed to greater risk, raise their cost of capital, and make economic recovery more difficult to achieve.

Polling Update

Rasmussen: "Americans Less Sure About Long-Term Strength of Economy... Forty-nine percent (49%) of American adults now say that the U.S. economy will be stronger in five years than it is today. That figure is down from 58% in July and 64% in March."

Rasmussen: "60% Favor Less International Economic Oversight, Not More... At last week's G20 summit, the leaders of the world's most powerful nations pushed ahead with plans for greater international coordination of their national economic policies. But 60% of Americans think international organizations should have less influence on U.S. economic policy, not more."

LESSONS LEARNED THIS WEEK

CFPA New Draft Is An Illusion Of Change.

- New York Times: "The agency, as currently envisioned, would still be robust. It has the ability to create incentives that would encourage the provision of plain-vanilla products, for example, by charging reduced oversight fees to firms that offer simpler loans. In the proposed legislation, the agency also has broad power to stop products and practices that are unfair, deceptive or abusive."

- US Chamber of Commerce: "The exemptions [from CFPB's coverage] for real estate brokers and auto dealers suffer from the same flaw as the one for accountants, lawyers, and tax preparers: they do not apply if the person is engaged in a financial activity or otherwise subject to the existing federal consumer laws. The bill allows the Agency to impose fees on, and require reports from, employees, shareholders, directors and others. And it broadly subjects shareholders and directors to the Agency's authority, even with respect to activities unrelated to the covered person with which they are associated."

More Evidence That Treasury Plans To Renew TARP. Instead of providing the American people with an exit strategy from TARP, the Administration seems determined to expand it beyond this year. This week, the Administration rolled out its so-called Public Private Investment Partnership, which continues to shift risk onto the taxpayer. By providing hedge funds and Wall Street investors with a 95 percent taxpayer subsidy, the Administration is simply paying "cash for trash." This is not a "public-private partnership," as the Administration claims. It is a public gift to Wall Street.

ACORN and SEIU Maintain Strong Ties. At Wednesday's Full Committee hearing, SEIU Secretary-Treasurer Anna Burger's claim that the SEIU in Illinois severed its ties to ACORN two years ago was an attempt to obscure the union's ongoing national relationship with the troubled organization. The current President of the SEIU, Andy Stern, serves on the ACORN Advisory Council which is charged with reforming the institution in light of the recent scandals. According to a July 23, 2009 report released by Oversight and Government Reform Committee Republicans, numerous local SEIU chapters account for the 361 entities that comprise the ACORN Council. SEIU contributed \$7.4 million between 2005 and 2008 to ACORN and its affiliates, according to U.S. Department of Labor financial disclosure forms (Washington Examiner, July 9, 2009). Last year, according to a September 29 Chicago Sun Times report, SEIU and Change To Win, a coalition of labor unions, gave ACORN \$1,729,462.

ON THE HORIZON

Tuesday, October 6: The Full Committee will convene a hearing entitled "Capital Markets Regulatory Reform: Strengthening Investor Protection, Enhancing Oversight of Private Pools of Capital, and Creating a National Insurance Office" at 10 am in room 2128 Rayburn.

Wednesday, October 7: The Full Committee will convene a hearing on reforming the over the counter derivatives market at 10 am in room 2128 Rayburn.

Thursday, October 8: The Full Committee will convene a legislative hearing on H.R.2382, the Credit Card Interchange Fees Act and H.R. 3639, the Expedited CARD Reform for Consumers Act at 10 am in room 2128 Rayburn. At 2 pm, the Housing Subcommittee will convene a hearing on FHA in room 2128 Rayburn.

WEEKEND MUST-READS

Wall Street Journal: "Fed Draws Court's Eyes in Lehman Bankruptcy ... A court-appointed examiner investigating Lehman Brothers Holdings Inc.'s bankruptcy has been exploring whether the Federal Reserve improperly cut in front of other creditors owed money in the \$613 billion bankruptcy case, records show."

Wall Street Journal: "More Signs Point to Economic Recovery ... An expansion of manufacturing activity, growth in consumer spending and improved home sales indicated Thursday that the U.S. economy is on the mend. But amid a consumer rebound driven largely by tax breaks and government programs, it remained to be seen if a recovery will continue in the absence of federal help."

USA Today: "Loan delinquencies hit record highs in 2nd quarter ... Delinquency rates for three key consumer loan categories hit record highs in the second quarter, according to data released Thursday by the American Bankers Association."

Bloomberg: "CIT Pledges to Cut \$5.7 Billion of Debt in Swap Offer (Update2) ... CIT Group Inc., the 101-year-old commercial lender, is seeking to cut at least \$5.7 billion of debt to help it avoid collapse and return to profitability after nine quarters of losses."

Barron's: "Shying Away From Risk ... INVESTORS ARE STARTING to react to elevated risks in the stock market by moving money to the safety of Treasury bonds and away from riskier assets such as corporate bonds and stocks."

Wall Street Journal: "Bernanke Calls for Council of Regulators ... A council of U.S. regulators -- rather than the Federal Reserve alone -- should be charged with monitoring threats to the U.S. financial system, Fed Chairman Ben Bernanke said in prepared testimony to be delivered to a congressional panel Thursday morning."

Wall Street Journal: "Wall Street Wizardry Reworks Mortgages ... A new wave of financial alchemy is emerging on Wall

Street as banks and insurers seek to make soured securities look better. Regulators are pushing back, saying the transactions don't have enough substance and stand to benefit bankers and ratings firms."

Wall Street Journal: "Banks Bite Bullet on Loans ... Banks and loan investors are starting to bite the bullet and lower the principal due on home mortgages for some struggling borrowers, a new report from bank regulators shows."

Wall Street Journal: "CIT Draws Up Bankruptcy Option ... CIT Group Inc. upped the ante with its creditors by drawing up a prepackaged bankruptcy plan, two people familiar with the matter said Wednesday."

Wall Street Journal: "Protecting the Credit Raters ... This morning we had hoped to be able to praise House Financial Services Chairman Barney Frank, who seemed ready to break up the credit ratings racket that did so much to inflame the financial panic. But just when you think Barney will free up competition, he reinforces the cartel."

LA Times: "Two Treasury partners raise \$500 million each for toxic assets effort ... The Treasury Department's long-awaited attempt to deal with toxic mortgage securities cleared another hurdle as two of the nine fund managers selected to lead public-private partnerships to purchase the assets raised at least \$500 million each."

USA Today: "Many still can't make payments after mortgage modifications ... Lenders are ramping up efforts to avoid home foreclosures, but a report by bank regulators says more than half of borrowers who get help fall behind again."

Wall Street Journal: "Bank-Bailout Fund Faces Years in Red as Failures Jolt System ... The government said the fund that protects consumer bank deposits has fallen into the red and will remain there into 2012, a pointed symbol of how the aftershocks of the financial crisis will reverberate for years as banks continue to fail at a high rate."

The Washington Post: "More Help Coming To Clean Up Crisis ... The Obama administration is close to rolling out two initiatives aimed at addressing lingering problems from the financial crisis: A long-delayed effort to cleanse financial firms of their toxic assets, and a \$35 billion plan to prop up state programs that help lower-income borrowers get affordable mortgages."

NY Times: "Fed Proposes Rules on Credit Cards ... The Federal Reserve proposed tough credit card rules on Tuesday to protect consumers from potentially costly practices by lenders, and moved to put in place legislation enacted in May."

NY Times: "Signs of Life in Financial Reform ... Financial regulatory reform, which seemed to be lagging one year after the collapse of Lehman Brothers, has gotten a new boost of energy. Unfortunately, Americans still cannot be sure it will produce real reform."

Wall Street Journal: "Subprime Uncle Sam ... The Treasury has announced new "capital cushion" requirements for financial institutions to reduce excessive risk and prevent taxpayer bailouts. Seems sensible enough. Perhaps the Administration will even impose those safety and soundness standards on federal agencies."

Wall Street Journal: "Foes Take on 'Uptick' Rule ... Big Wall Street firms from Vanguard Group Inc. to Goldman Sachs Group Inc. are lining up against new rules to restrict short-selling under consideration by the Securities and Exchange Commission."

Wall Street Journal: "\$35 Billion Slated for Local Housing ... The Obama administration is close to committing as much as \$35 billion to help beleaguered state and local housing agencies continue to provide mortgages to low- and moderate-income families, according to administration officials."

Wall Street Journal: "Phone Calls Add to Din Over Loans ... The discovery that Countrywide Financial Corp. recorded phone conversations with borrowers in a controversial mortgage program that included public officials -- and that those recordings have been destroyed -- has prompted new congressional calls for more information about the program."

The Washington Post: "As Subprime Lending Crisis Unfolded, Watchdog Fed Didn't Bother Barking ... The visits had a

ritual quality. Three times a year, a coalition of Chicago community groups met with the Federal Reserve and other banking regulators to warn about the growing prevalence of abusive mortgage lending."

USA Today: "Bailouts for smaller banks considered ... Federal regulators and lawmakers are weighing a round of bailouts for U.S. banks that were deemed too small or too risky to qualify for earlier aid."

Bloomberg: "Obama's Too-Big-to-Fail Plan Is Too Dumb to Pass: Kevin Hassett ... Treasury Secretary Timothy Geithner's appearance in Congress last week to explain how President Barack Obama would overhaul financial regulation elicited the most striking sign yet that the wheels have come off the administration's economic-policy team."

COMMITTEE REPUBLICANS IN THE NEWS

Rep. Scott Garrett issued these press releases: Garrett Introduces FHA Bill Requiring 5% Down Payment;

Garrett Opening Statement for CFPB Hearing; Garrett Opening Statement for Federal Reserve Regulatory Reform Hearing.

Rep. Patrick McHenry posted this YouTube video: McHenry Questions SEIU about ACORN.

Rep. Ed Royce appeared on CNBC to discuss financial regulatory reform.

Rep. Michele Bachmann issued these press releases: What Lessons Have we Learned From TARP?; Bachmann Urges Geithner to Cut Ties with ACORN.

Rep. Spencer Bachus issued these press releases: Bachus Introduces Legislation To Prevent TARP Recipients From Funding ACORN; Bachus Statement During Credit Rating Agency Hearing; Bachus Statement During CFPB Hearing; Bachus Statement During Financial Regulatory Reform Hearing.

CARTOON OF THE WEEK

(Washington Post 9/23/2009)

